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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

Secret

Nº 41

22 March 1972

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Approved For Release 2003/08/05 : CIA-RDP79T00975A021500030001-9

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No. 0070/72
22 March 1972

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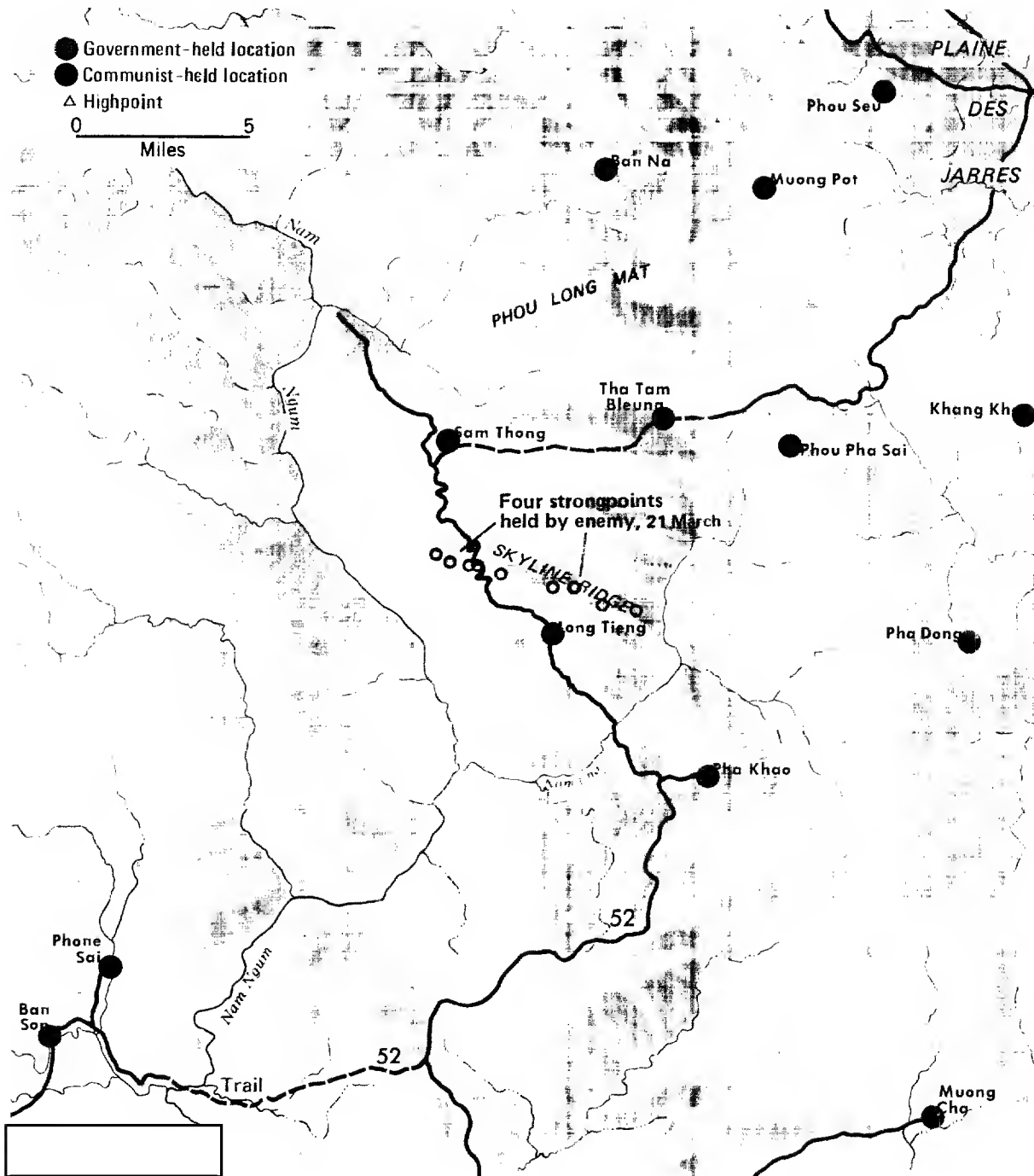
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LONG TIENG AREA



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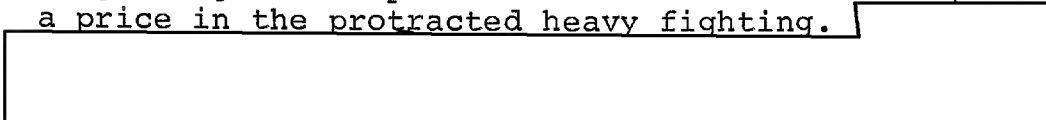
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LAOS: Intense fighting continues on Skyline Ridge.

North Vietnamese troops on 21 March drove irregulars from another position on the western end of the ridge. Of the nine major strongpoints on Skyline, four are now held by the Communists. Government forces are regrouping to launch a counter-attack before the Communists can use their toehold to cover the movement of troops and tanks from the Sam Thong area. There are signs that tanks may already be approaching the ridge from the north. The Communist positions on the western edge of the ridge also threaten the irregulars holding blocking positions on the Nam Ngum River.

The irregulars who have been defending Skyline during the week-long battle have fought with considerable tenacity, but it seems questionable that they can hold on indefinitely without major reinforcements. Although Vang Pao is trying to move two fresh battalions into the area, heavy enemy fire has thus far prevented them from landing at Long Tieng airstrip. The Communists also have paid a price in the protracted heavy fighting.



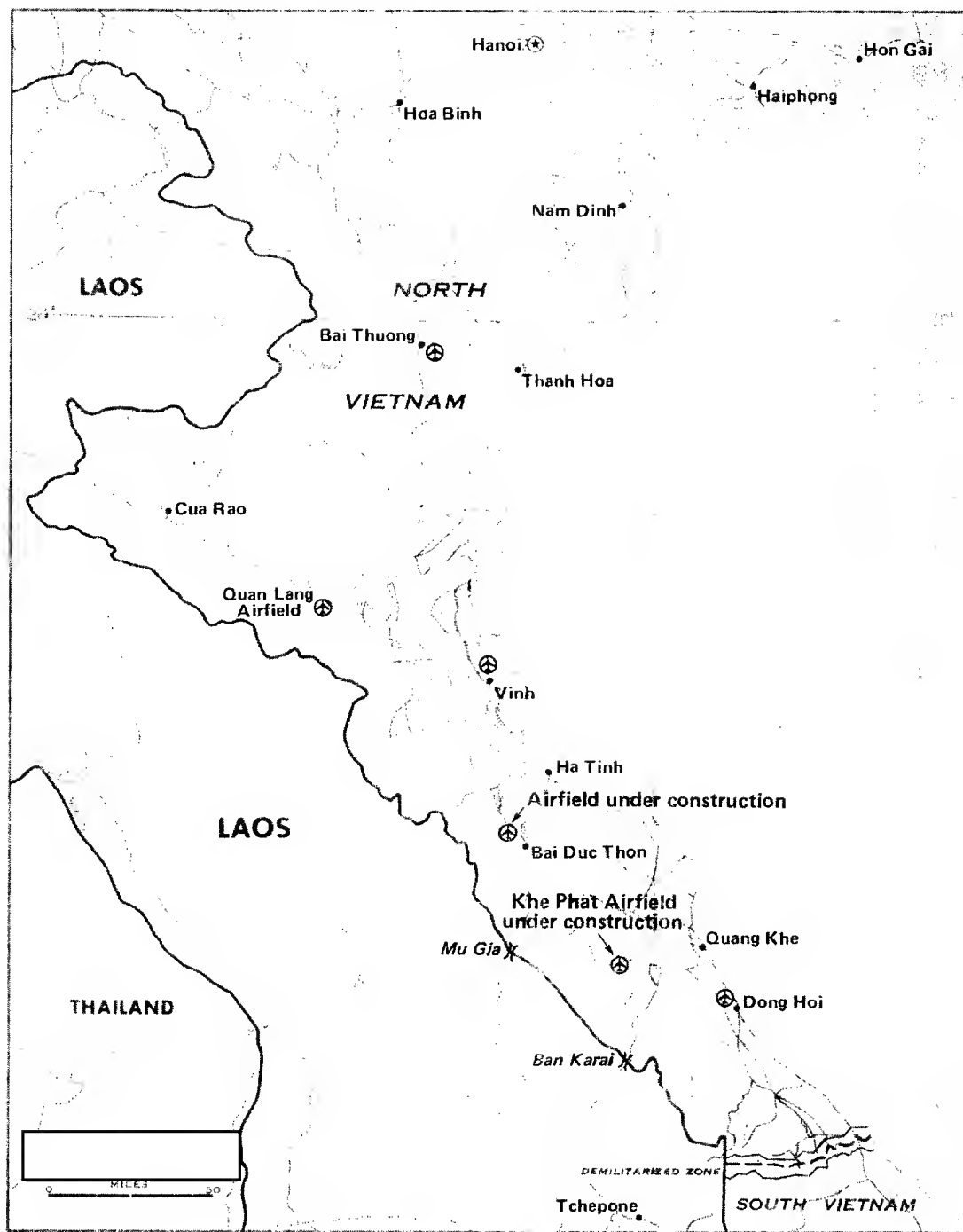
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NORTH VIETNAM: Hanoi probably is building another airfield in extreme southern North Vietnam, increasing the threat to US air operations over South Vietnam and the Ho Chi Minh Trail.

Photography in mid-March indicates that construction has started on a probable new airfield near Bai Duc Thon. The runway is in an early stage of construction and only 3,800 feet long, and it could be extended easily. At Khe Phat, where a new airfield was started early this year, the North Vietnamese are now surfacing the 5,600-foot runway.

The pace of construction at these airfields suggests that Hanoi may intend to mount a higher level of air operations during the next few months. When the work is completed, probably by this summer, the North Vietnamese will have six airfields south of the 20th parallel capable of handling jet aircraft. When Hanoi stepped up its air war against US aircraft early in 1971, North Vietnam had only three airfields in this area that could handle jet aircraft.



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UNITED KINGDOM: Chancellor of the Exchequer Anthony Barber in his budget message yesterday promised to restart the country's stalled economy and to align the tax structure for EC entry.

The \$3.1 billion in proposed tax cuts provide about the amount of reflationary stimulus expected by most business and labor observers. To boost consumer and investor spending, sales taxes will be cut, while depreciation allowances, personal tax exemptions, and old age pensions will be increased. Other measures are intended to facilitate investment by British firms in EC countries and to encourage investment in economically depressed areas of the UK.

The budget is a crucial one for the UK. So far, fiscal policy alone has not been enough to enable Britain to reach Prime Minister Heath's growth targets. The new measures are not likely to provide enough stimulus to attain the higher growth goal of five percent established yesterday. Previous government reflationary measures have not induced timid UK investors to start investing on the scale necessary to sustain an economic recovery or to modernize and re-equip British industry to take full advantage of its entry into the EC. With less than one year before EC entry, the country is still plagued by one of Europe's highest inflation rates, and unsettled labor relations appear to preclude an early end to inflation problems.

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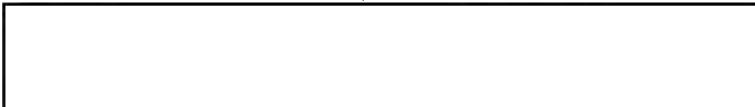
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JAPAN-CHILE: High-level Chilean officials are in Tokyo to press their case on debt renegotiations currently under way in Paris between Chile and its major Western creditors.

Chile owes Japan \$22 million in private export credits, including \$13 million due during 1972-74. In addition, Japanese interests are owed \$55 million in long-term loans made to US mining firms in Chile, whose operations were nationalized in 1971 by the Allende government. The Japanese are willing to renegotiate at least \$45 million, if not all, of the mining loans. Part of these loans are repayable in copper ore, and the Japanese would like to delay and stretch out shipments because of slack demand resulting from Japan's recent economic slowdown.

Chile hopes to expand trade with Japan and to attract Japanese capital and perhaps economic aid. Tokyo, however, has indicated a concern over its financial risk in Chile in view of Santiago's moves against US-owned properties. The Chileans will almost certainly fully honor their obligations to Japan to pave the way for a much-needed expansion of financial and commercial ties with the Japanese.



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SOUTH VIETNAM: A large increase in rice deliveries from the Mekong Delta has sharply boosted farmers' income in that region.

Only last fall, sales of surplus rice from the Delta were too small to maintain adequate stocks in the rice deficit areas of the country. Large government purchases and strong private demand early in 1972, however, have generated the highest level of Delta deliveries in nine years. With the delivery price also high, Delta farmers' income has increased dramatically. In January and February alone, farmers earned more than three times the amount earned during the comparable period last year.

The recent gain in income, coming on top of increases registered in the Delta for the past two or three years, should provide sizable funds for investment to permit further increases in agricultural production. Moreover, the gain in agricultural sales, together with the elimination of rents as a result of land reform, would help pave the way for government taxation of the farmers, who have been virtually tax exempt for many years. The farmers' excellent cash position, however, may encourage them to hold rice off the market later in the year, a frequent practice in the past. Saigon is revising its purchasing policy in an attempt to forestall this kind of speculation.

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JAPAN - EAST GERMANY: Several major Japanese banks reportedly will extend \$45 million worth of medium-term loans to East Germany later this month to finance sales of Japanese industrial goods. The loans, part of Tokyo's increased efforts to expand sales to Communist countries, could boost Japanese exports to East Germany significantly above the \$15-million level of recent years. Japan, which recently extended trade credits to Yugoslavia, now is examining possibilities for similar arrangements with Romania, Bulgaria, and Hungary. Last month Tokyo lifted a long-standing ban on using Export-Import Bank funds to finance exports to China. [REDACTED]

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YUGOSLAVIA-USSR: Bilateral economic discussions in Moscow next week reportedly will cover Soviet investment credits to Belgrade, described by a Yugoslav official as the "largest ever." The recent intensification of economic relations between the two countries in part may reflect Moscow's attempt to overcome President Tito's political reservations about his trip to the USSR scheduled in May. The upsurge has been highlighted by a \$130-million credit granted in January to the Yugoslav firm Energoinvest for the construction of alumina and aluminum plants in Bosnia and the conclusion in February of a \$100-million barter arrangement between Moscow and Belgrade's Fiat affiliate. Future discussions are likely to center on possible Soviet credits for the development of nonferrous metals, particularly in the underdeveloped republics of Kosovo and Macedonia. [REDACTED]

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FRANCE: Finance Minister Valéry Giscard d'Estaing has indicated that France's strong 1971 balance-of-payments surplus makes it possible to raise some ceilings on long-term investment abroad. Lifting these ceilings would probably stimulate an outflow of dollars. The inflow of foreign currencies, attracted by the relatively high interest-rate structure that France has maintained as an inflationary curb, recently has kept the franc near its official dollar ceiling. The government hopes that a long-term capital outflow would reduce exchange-market pressures, but it may nevertheless still seek to lessen these pressures by adding to exchange controls.

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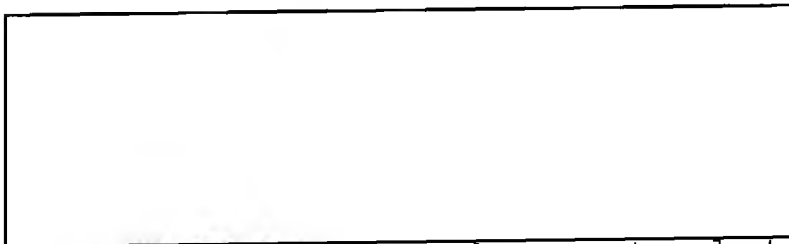
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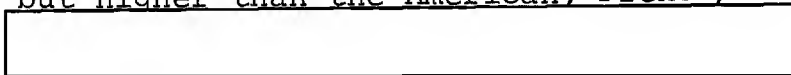
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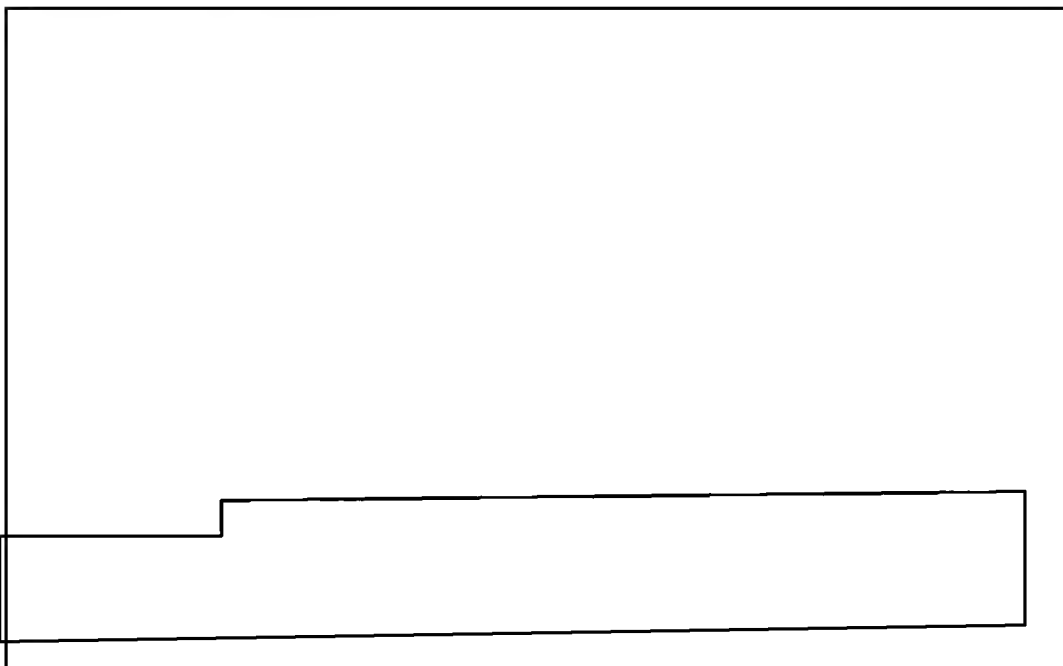
UNITED KINGDOM: The recent reduction in the interest rate for credits guaranteed by the government will help British exporters to compete in East-West trade. The UK has faced increasingly stiff competition in selling to the East for some time, particularly with the recent rise in US and Japanese exports to this area. The new interest rate of six percent on government-guaranteed credits reportedly puts British exports in the middle of the competitive range--lower than the West German rate, but higher than the American, French, and Japanese.

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[REDACTED] has won 39 of the 52 seats in the new legislature. The margin is sufficient to pass any type of legislation, but the party would have to be able to deliver all 39 votes for ratification of any treaty affecting the national boundaries--such as might emerge from its dispute with Honduras. The leftist coalition won eight seats, a moderately conservative party won four, and a far right group one. In the 261 mayoralty contests, the governing party won at least 240 but lost the three largest cities to the leftist coalition. Most Salvadorans are embarrassed by the way this year's elections were handled, and the new Molina administration, elected on 20 February, will have to work hard to rebuild popular support and confidence. [REDACTED]
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